

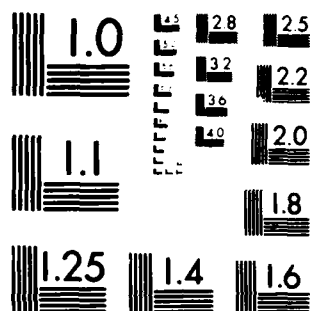
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NAVAL POSTGRADUATE SCHOOL

Monterey, California

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THESIS

UNTIMELY PAYMENT OF SMALL PURCHASE INVOICES

by

Cedric Leroy Knight

June 1982

Thesis Advisor:

M. L. Sneiderman

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Untimely Payment of Small Purchase Invoices

by

Cedric Leroy Knight
Lieutenant, United States Navy
B.S.A., University of Georgia, 1974

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

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ABSTRACT

Over ninety percent of all procurement actions fall into the small purchase category. The high cost of borrowing money has caused many vendors to criticize the government for its untimely bill paying of small purchase invoices. This study was undertaken to determine if untimely payment of small purchase invoices is a problem for the Department of the Navy and its suppliers which is adversely impacting the ability to do business.

The results of this study indicate: Settling billions of dollars in payments has become an important part of federal procurement. Navy bill paying functions are handled as part of the Integrated Disbursing and Accounting (IDA) system concept, when fully implemented IDA will improve the timeliness of small purchase invoice payments. In spite of difficulties they are currently experiencing, contractors are optimistic about doing business with the Navy. The biggest delay in the Navy bill paying cycle occurs in the certification process. The timeliness of paying small purchase invoices may be improved by considering two models proposed for future use.

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I. INTRODUCTION

Federal procurement is a 110 billion dollars or more annual business. Goods and services are purchased from thousands of different vendors. As a result of sustained double digit inflation, high interest rates, the high cost of capital and cash flow problems, numerous congressional inquiries dealing with disgruntled vendor complaints over the untimely payment of small purchase invoices (bills, statements, or any document requiring payment for goods or services) are being processed at field and headquarters level procurement activities throughout the federal sector. [Ref. 1]

In fiscal year 1980 large purchase (those which exceeded 10,000 dollars) totaled 99.6 billion dollars (90.87%) and 442,000 procurement actions (2.60%). Small purchases totaled 10.6 billion dollars (9.12%) and 17 million procurement actions (97.4%). [Ref. 2]

Within the Department of the Navy (DON), the Navy Supply Systems Command (NAVSUP) is currently exploring ways of coming to grips with the problem of untimely payment of small purchase invoices. In a letter to field purchasing activities, NAVSUP's commitment to solving the problem is conveyed in the second paragraph:

"In order to have a better understanding of and to quantify the problem, you are requested to provide input relating your experiences in this area. Along with information regarding responses to congressional inquiries you have processed, please provide your thoughts as to your perception of the problem with proposed steps which should be pursued to resolve or minimize untimely paying of invoices." [Ref. 1]

A. OBJECTIVES OF THE RESEARCH

The objectives of this research effort are:

1. To examine the Navy's small purchase bill paying process as it currently exists;
2. Focus on the problems encountered by business concerns as a result of the Navy's untimely payment of invoices;
3. Review the Navy's bill paying standards and identify problems with the current system as seen from one paying activity; and
4. Attempt to develop two payment process models for future consideration.

B. SCOPE, LIMITATIONS AND ASSUMPTIONS

Some of the information presented in this study is pertinent to bill paying problems throughout the federal sector but due to limited resources, this study will focus primarily on those problems unique to the Navy. Purchase actions of the small purchase category will be reviewed. In the context of this study the word "contract" refers to any procurement action in the amount of 10,000 dollars or less utilizing small purchase procedures. Public Law 97-86 raised the small purchase amount to 25,000 dollars. [Ref. 3] Purchases under agreements such as blanket purchase agreements and basic ordering agreements will not be included. For the purposes of this study we will consider the DD1155 purchase order the primary method of small purchases. The terms "contractor" and "vendor" will be used interchangeably.

Since the entire bill paying process hinges upon the particular functions of the contractor, purchasing, certifying, and paying activities, the findings of this study may differ from those of similar studies. Other government agencies may have different bill paying procedures and these procedures were not investigated. It is assumed that the reader of this

study has a passing familiarity with simplified small purchase procedures including the bill paying functions.

C. METHODOLOGY

1. Primary Research

a. The initial literature search revealed that research on the subject area has been sparse. Extensive GAO reports were published in February of 1978 and 1980. Several articles have also been published. Congressional hearings were held on the subject in May of 1981.

b. Accompanying the initial literature search was a series of oral and telephone interviews with purchasing activities, paying offices and vendors.

2. Secondary Research

a. A series of fact finding trips were made to various activities in California, including the finance department of the Naval Supply Center Oakland (Navy Regional Finance Center), Navy Regional Contracting Office Long Beach, Defense Contract Administration Regional Office, and Control Division of the Naval Postgraduate School.

b. An oral survey of selected vendors was conducted. This survey was made based on delinquent unpaid purchase invoices selected at random from the Navy Regional Finance Center Oakland (NRFC).

D. LITERATURE REVIEW

Since persistent double digit inflation coupled with high interest rates forced this problem into the focus of public eyes over the past several years, growing concern has been expressed in the form of legislation

such as new bills sponsored by Representatives Jack Brooks (Dem-TX)/Robert Lagomarsino (Rep-CA) and Senators John Danforth (Rep-MO)/Jim Sasser (Rep-TN). There have been several articles on the subject which have appeared in the syndicated news media and professional magazines, such as the Contracts Management, National Contracts Management Association (NCMA) and the Federal Contracts Report (FCR). Copies of specific congressionally originated inquiries were reviewed at several activities. Numerous policy documents and other related correspondence were obtained during the fact finding trips.

E. ORGANIZATION OF THE STUDY

Chapter II, the "Bill Paying Process," provides the reader with an overall general perspective on Navy small purchase bill paying and how it works. Chapter III focuses on the problems encountered by business concerns. Chapter IV reviews the Navy Department's bill paying standards and identifies problems with the current system as viewed from one paying activity. Chapter V examines two alternative models for future consideration. Chapter VI presents the study's conclusions and recommendations.

II. THE BILL PAYING PROCESS

The bill paying process is an important function that entails a number of actions which must be coordinated by the vendor, purchasing, receiving and paying activities. A December 1981 Associated Press news article printed by the San Francisco Chronicle revealed that thousands of small companies complained that the federal government was a deadbeat. They further stated future federal contracts will be refused unless there is a law guaranteeing prompt payment. [Ref. 4] The point was also brought out in a December 1981 Federal Contracts Report article on congressional hearings which stated:

"Rep William Clinger (R-Pa) observed that the government's bill paying tardiness could have an adverse effect on the nation's efforts to expand its defense industrial base. If enough firms are discouraged from bidding on government contracts, the pool of potential contractors is reduced and the nation may not have enough to meet its defense needs, Clinger reasoned." [Ref. 5]

Also inherent in the bill paying process are the huge potential losses or savings associated with prompt payment discounts for both the government and the small purchase contractor. The same Associated Press article went on to say:

"Sometimes federal agencies audaciously subtract an early payment discount from their overdue bills as if they were settling accounts before the final due dates." [Ref. 4]

In order to understand the mechanics as well as the magnitude of the untimely bill paying problem, an understanding of small purchases and how the bill paying function works is presented.

A. SMALL PURCHASES

The Defense Acquisition Regulation (DAR) currently defines small purchases as any supply, nonpersonal service, or construction contract, the aggregate amount which does not exceed 10,000 dollars. The next Defense Acquisition Circular will most likely raise the small purchase ceiling to 25,000 dollars. Some small purchase contracts can be used without dollar limitation when buying subsistence or placing orders against indefinite delivery contracts such as those administered by the General Services Administration. The small purchase methods which may be utilized are:

1. DD 1155 purchase/delivery order--the most frequently used method.
2. Imprest fund--restricted in use but economical and convenient.
3. Blanket purchase agreement--used when a purchasing activity places repetitive orders with a supplier.
4. SF-44--used only when no other method is appropriate.
5. Written telecommunicated purchase order--used in the same manner as a unilateral DD1155 purchase order. [Ref. 6]

As mentioned above, the DD1155 purchase order-delivery order is the most frequently used method of small purchase. This form is sent to a vendor either as a unilateral offer authorizing the vendor to perform or as a bilateral offer inviting the vendor to sign and return it to form a formal contract. The front of the form contains simplified versions of the standard clauses used by the government.

B. AUTHORITY

The statutory provisions governing federal payments, 31 U.S.C. 529 established in 1823, 10 U.S.C. 2307 and 41 U.S.C. 255 of 1948 and 1949

respectively authorized various types of payments by federal agencies. Policy and documentation requirements applicable to the military services are contained in the Defense Acquisition Regulation (DAR). With the basic framework provided by statute and DAR, the Navy implements departmental policy and procedures which pertain to bill paying through Navy Comptroller Manual Volume 4 and Naval Supply Systems Command Publication 467. [Ref. 7] Disbursing functions are carried out primarily in one of two ways.

1. Defense Contract Administration Services (DCAS) Offices

The purchasing activity designates which contracts are assigned to an office of Defense Contract Administration Services for administration and specifies disbursement by the cognizant Defense Contract Administration Regional Office (DCASR) if funded with DOD funds. Funds provided from other departments or agencies must be cited for the portion of the contract covered by non-DOD funds. [Ref. 7]

2. Other Disbursing Offices

If the purchasing office does not assign contracts to a DCAS office for administration, a paying office is designated in accordance with Navy Department Regulations. Reassignment of disbursing responsibilities due to changes in manufacture or for other reasons are made by the Procuring Contracting Officer (PCO) by issuing a unilateral contract modification. [Ref. 7]

Within the Department of the Navy, 16 Financial Information Processing Centers (FIPC's) and 55 Financial Processing Centers (FPC's) provide accounting and disbursing services for purchasing activities in 14 different regions of the country as a part of a relatively new Integrated Disbursing and Accounting (IDA) system concept. [Ref. 8] When fully

implemented IDA will encompass all Navy bill paying functions. More specific information about IDA will be presented in Section F of this chapter.

C. GENERAL PROCEDURES

In accordance with NAVCOMPT Manual Volume 4, the authority to make payments for contracts is limited to those approved bills for supplies or services purchased by and for the Navy. [Ref. 9] NAVSUP P-467 states:

"Small purchases normally will be retained for administration by the purchasing office. However if field administration is required for one or more functions listed in DAR 1-406, the small purchase will be assigned to the cognizant contract administration services component for full performance." [Ref. 10]

The payment procedure for small purchase contract bills paid by DCASR is as follows:

- (1) The signed duplicate original and/or copies of the basic contract instrument (DD155) when received establishes a basis for payment and initialization in the DCASR data base. Authorized changes is the vehicle by which modifications are made to the basic contract using standard form 30.
- (2) When the contractor has completed work on the item(s) specified in the contract and source acceptance is provided, he submits a DD form 250 (material inspection and receiving report) to the cognizant contract administration office. If signed by the local quality assurance representative the DD 250 acts as a shipping and acceptance document which is subsequently submitted electronically by the contract administration office to the DCASR office. Material inspection and acceptance may be required at destination if so specified in the contract. In this situation, upon receipt of the DD 250 from the contract administration office, the DCASR office sends a Shipment Performance notice (S.P.N.) to the purchasing office and a Shipment Alert Notice (S.A.N.) to the consignee. These notices inform both activities that the material has been shipped. Once the material has been received, inspected and accepted by the consignee, the DCASR is notified in the form of a Shipment Acceptance Transaction (S.A.T.). Destination acceptance is the most lengthy method because contracted items must actually be delivered to some point other than the vendor's plant. The contractor may submit his invoice to the paying office when the material has been accepted at source or shipped to destination.

- (3) Disbursing functions are carried out when the signed purchase document, acceptance documents and the original and copies of the contractor's invoice have been received, then the proper administrative actions are taken to determine whether or not the government has a valid and legal obligation. A computerized processing method called Automatic Payment of Invoices (API) is the heart of the DCASR paying system. [Ref. 11]

The payment procedure for small purchase contract bills paid by the Financial Information Processing Centers and Financial Processing Centers is as follows:

- (1) The signed duplicate original and/or copies of the basic contract instrument (DD1155) when received by the paying activity establishes a basis for payment. Authorized changes is the vehicle by which modifications are made to the basic contract.
- (2) Once goods or services have been provided by the vendor, an itemized invoice is submitted in an original and three copies to the activity designated in the contract. Payment is made only on the original invoice. Invoices marked "copy" or "duplicate" are unacceptable.
- (3) When the contract provides for acceptance by the consignee, generally invoices will be submitted to the consignee. If deliveries are made to Navy ships, the invoice should accompany the material or services. In either case the invoices are stamped with certification information that material or services were inspected and accepted then forwarded for payment.
- (4) Disbursing functions are carried out when the contractor's certified invoice is received, matched with the purchase document and processed to determine whether the government has a valid and legal obligation. [Ref. 12]

See Figure 2.2 for a flow chart description.

Regardless of how bills are paid every invoice must be accurate and agree with the contract. This includes the quantity billed and transportation charges. For contracts involving progress payments on small purchases whether the contract is being paid by a DCASR office or another paying office, the invoice and receiving report are replaced by a payment request showing costs incurred and/or the vendor's estimate of contract performance.

Bill Paying Procedure

Flow Process (DCASR)

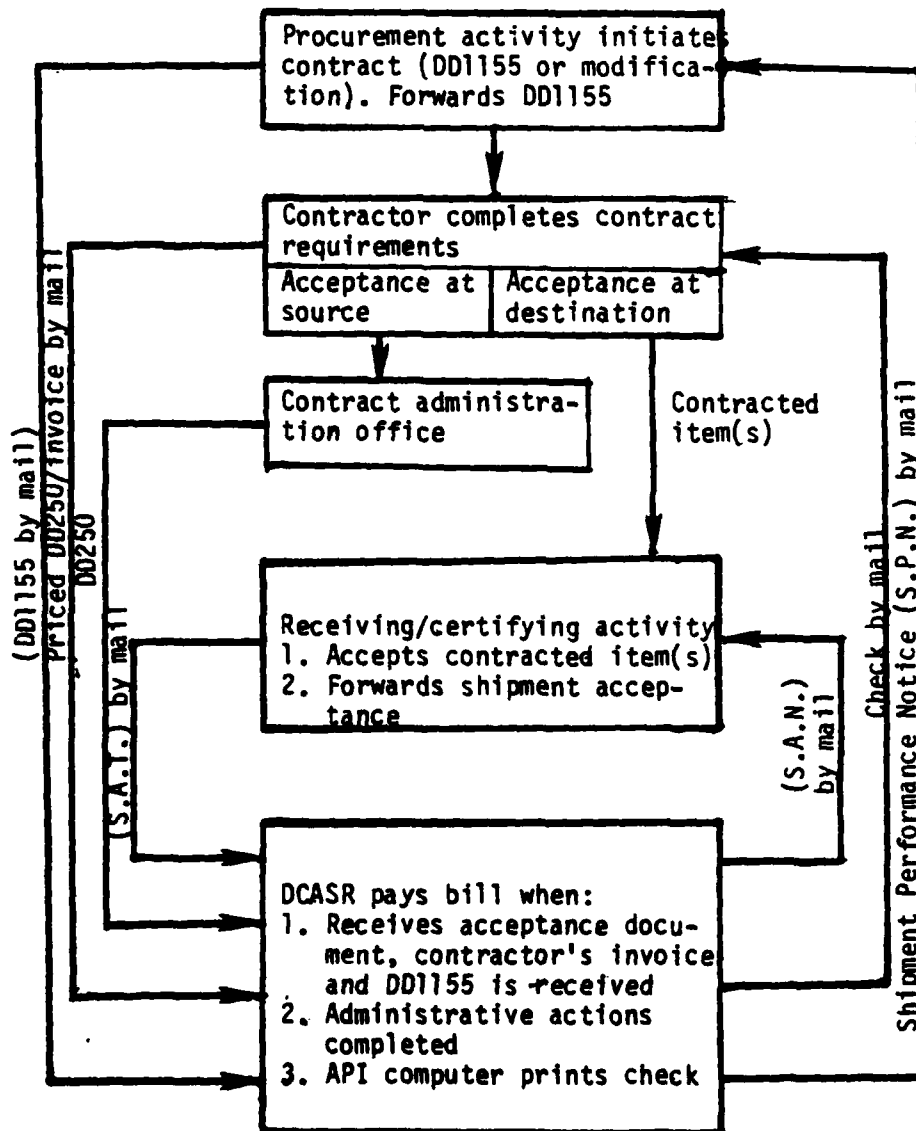


Figure 2.1
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Bill Paying Procedure

Flow Process (Normal)

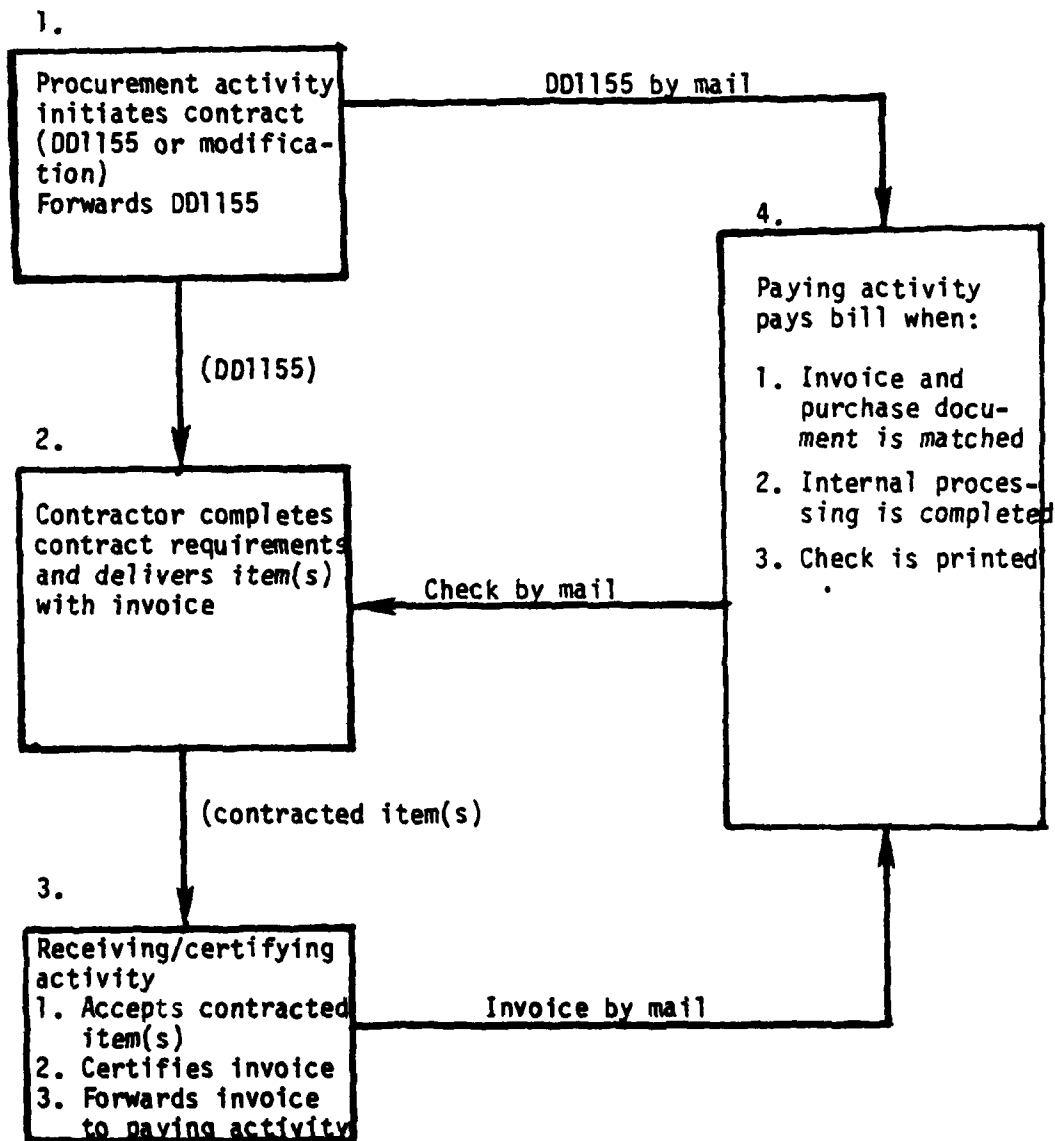


Figure 2.2

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D. FAST PAY PROCEDURES

The fast payment procedure is an authorized procedure for the payment of small purchase contracts. It is designated as stated in NAVSUP P-467:

"To reduce lead time to consignees and improve supplier relations by expediting payment for small purchases. Payment for supplies is based on the contractor's submission of an invoice which constitutes representation that the supplies have been delivered to a post office, common carrier or point of first receipt by the government. The contractor further agrees to replace, repair or correct supplies not received at destination, damaged in transit, or not conforming to purchase agreements, in accordance with the instructions from the Contracting Officer." [Ref. 10]

The fast payment procedure allows paying activities to pay contractors on the basis of an invoice which certifies that the supplies have been shipped and that the government has the right to redress in case of any discrepancies. A receiving report or evidence of acceptance is not needed for centers to make payments. NAVSUP P-467 encourages the use of fast payment procedures to the maximum extent possible consistent with the conditions of the procurement and provided the conditions outlined in paragraph 5096 of the manual are met. [Ref. 10] See Figure 2.3 for a flow chart description.

E. IMPREST FUND

A simple and economical method of effecting purchase and paying bills is the imprest fund method. The imprest fund employs a cash fund from which small payments are made at the time purchase transactions occur and to which reimbursements are made on a revolving basis. The primary limitation of this method is a small dollar amount and the restrictions on the availability of supplies and services. Transactions cannot exceed 150 dollars (300 in emergencies), supplies or services must be available

Bill Paying Procedure
Flow Process (Fast Pay)

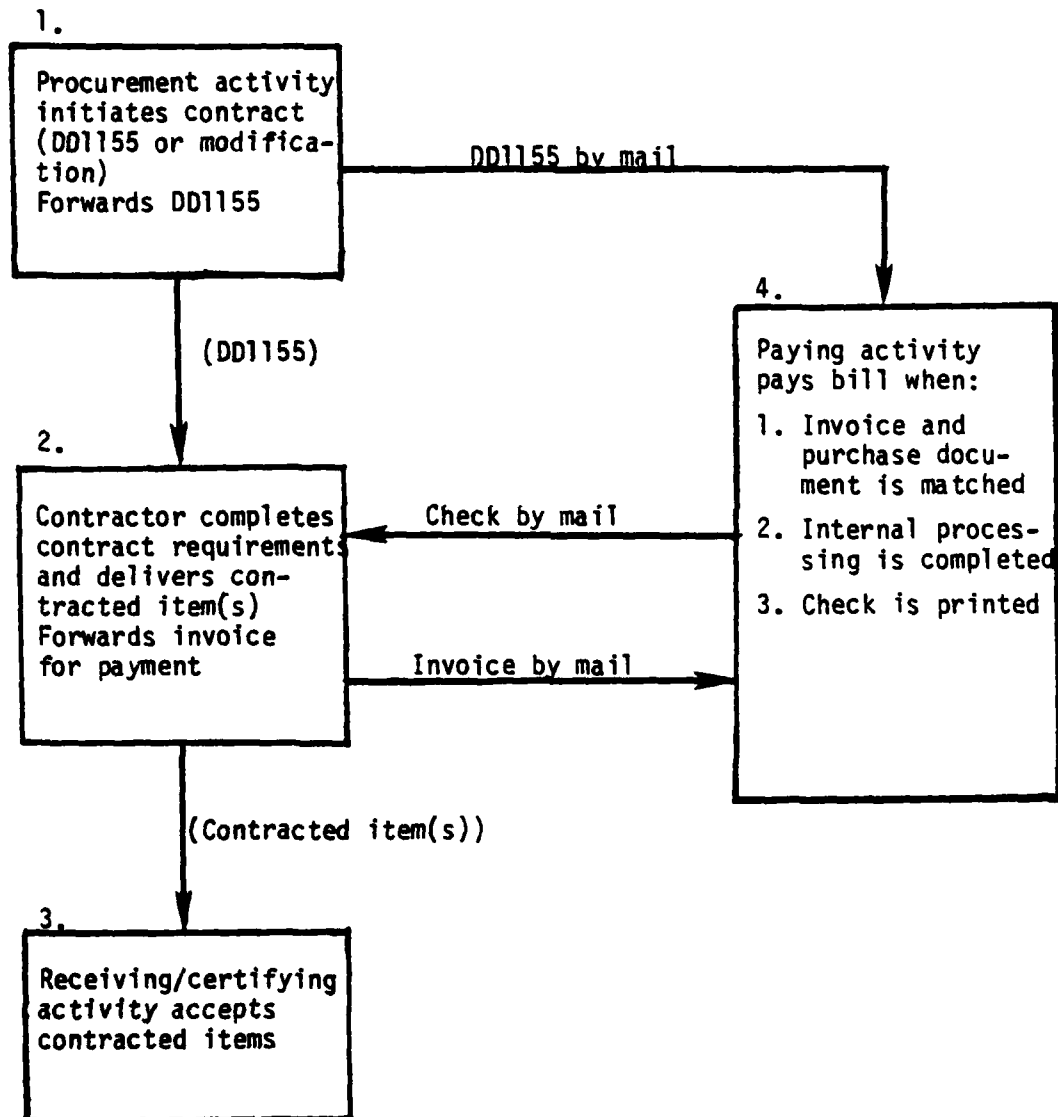


Figure 2.3
Complete distribution of DD1155 not shown.

within thirty days and technical specifications or technical inspection is not required. General management of the imprest fund is accomplished by an appointed imprest fund cashier. Payment procedures are outlined as follows:

- (1) Imprest fund orders are normally placed orally by purchasing activities. The procurement request document is annotated to show all pertinent information regarding the purchase action and a copy is provided to the imprest fund cashier who maintains a file of purchase documents covering imprest fund purchases.
- (2) Material or services are delivered or assigned to a designated receiver/checker who makes the appropriate examinations to ascertain that the quantity and quality described on the purchase request document and dealer's sales document are present and in good condition. The checker then certifies the dealer's invoice and forwards it along with a copy of the purchase request document to the imprest fund cashier for payment.
- (3) The imprest fund cashier performs disbursing functions upon receipt and processing of the invoice/sales document and copy of the purchase request documents. (Ref. 10]

See Figure 2.4 for a flow chart description.

Inflation and the cost of goods and services have steadily increased over the past decade. However, the imprest fund dollar threshold has not been changed.

F. INTEGRATED DISBURSING AND ACCOUNTING SYSTEM (IDA)

The primary purpose of IDA is to provide, utilizing the latest Automatic Data Processing equipment accounting, disbursing and collection services to many operating activities. It permits the processing of financial control information on a near real time basis, which in turn fosters economies of operation by doing the following:

- (1) Combining and mechanizing duplicate manual functions performed by separate accounting activities and disbursing offices.

Bill Paying Procedure
Flow Process (Imprest Fund)

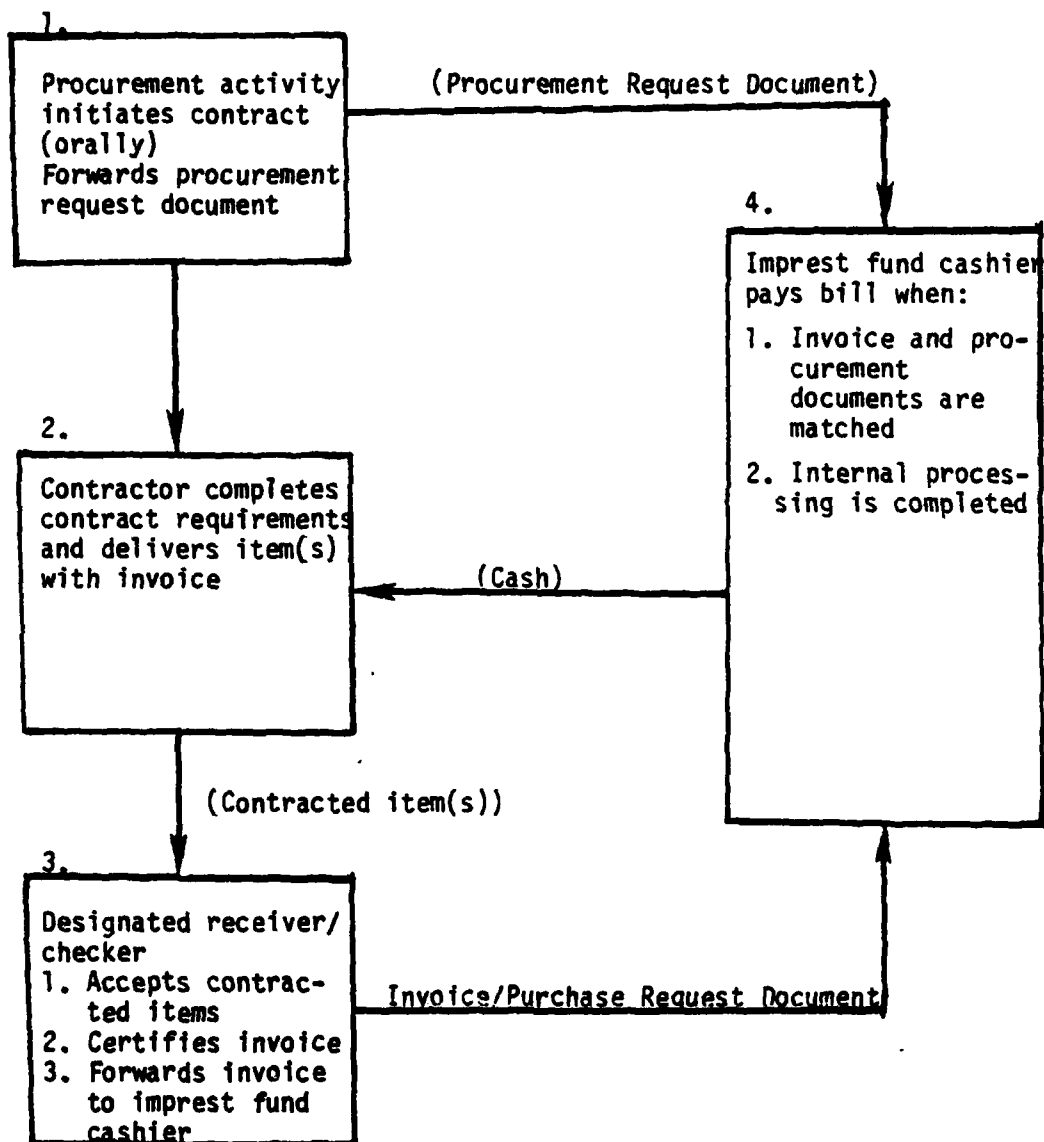


Figure 2.4
Complete distribution of DD1155 not shown.

- (2) Combining accounting functions of the Authorized Accounting Activities into 16 Financial Information Processing Centers.
- (3) Reducing the need for memorandum financial records.

Specifically related to the bill paying process, IDA allows information on the procurement instrument (DD1155) to be transmitted electronically to paying offices by purchasing activities. IDA improves receipt certification by allowing the receiving activity to electronically submit certification data to FIPCs.

The two data processing techniques used by IDA are in various stages of implementation by all FIPCs and FPCs. Many do not have the capability to electronically transmit procurement or certification information. [Ref. 8]

G. SUMMARY

Chapter II provides the reader with a description of simplified small purchase procedures. Information was also provided pertaining to the origin of federal payment provisions and how statutory provisions through the Defense Acquisition Regulation permit the Navy to implement its bill paying policy. Any one of several procedures may be used for paying bills but in each instance several activities and numerous steps are required to carry out the complete cycle. Navy bill paying functions are being handled under the relatively new Integrated Disbursing and Accounting system concept. When fully implemented, IDA will allow bill paying information to be transmitted electronically between activities involved in the bill paying process.

III. PROBLEMS ENCOUNTERED BY BUSINESS CONCERNS

As the nation's largest customer, the federal government deals with a wide cross-section of large and small business concerns. According to Senator John Danforth (Rep-MO) (Chairman of the Senate Subcommittee on Federal Expenditures), the federal government will likely spend over 100 billion dollars for goods and services in fiscal year 1982. [Ref. 13] With President Reagan's current efforts to bolster defenses, Department of Defense and in particular the Navy will account for a sizeable portion of these expenditures.

Strengthening the defense base will depend to a large degree on the government's ability to resolve many of the problems being experienced by business concerns. This chapter will focus on some of the major problems confronting contractors.

A. GAO REPORTS

In 1978, following a 2-year study, the General Accounting Office took the first step in bringing bill paying problems to the public's attention. This was in spite of the conclusion that 70 percent of government's payments were made on time.

The report highlighted four main problem areas faced by business concerns as a result of government's bill paying practices:

- (1) Cash Flow: GAO estimated that during the six month period over which sample data was collected, at least 30 million dollars in interest costs might have been incurred by contractors to provide money tied up in overdue bills.

- (2) Administrative Burden: Late payments cost companies money in terms of additional time and effort spent in tracking down unpaid invoices.
- (3) Paperwork: Payment centers have difficulty obtaining all the paperwork from buying activities, receiving activities and contractors. Acknowledgement of receipt and acceptance takes a long time.
- (4) Lack of Federal Standards Establishing a Payment Due Date: Procurement regulations state payments are to be made promptly when due, but they do not specify when payment is actually due. Although most contractors' invoices include payment terms, the federal procurement regulations are silent on whether agencies are required to abide by those terms.

Legislation which would require federal agencies to pay interest on late vendor payments has been considered for several years. These interest payments would help offset losses incurred. The GAO study found that the Office of Federal Procurement policy is opposed to such legislation. [Ref. 14]

Another GAO report completed in February of 1980 revealed that higher productivity would improve the processing of vendors' bills for payment and also save the government money. GAO determined that inefficiencies in processing payments by federal payment centers cost the government millions of dollars annually. Most payment centers examined by GAO did not have productivity incentives. Productivity was found to vary for three main reasons:

- (1) The degree of management concern for and use of efficiency measures: In centers where productivity was high managers showed a high degree of concern about it and the reverse for activities with low productivity. Managers in centers with low productivity expressed greater concern for paying bills on time (effectiveness). GAO found that one center with high productivity was just as timely in paying bills as one center with low productivity. The major cause of low productivity was disincentives to be efficient, such as budget cuts, restrictions in grade levels and managers' inability to discipline non-performers.
- (2) The volume of work load processed by the centers: Due to economies of scale, centers with the larger work loads achieved higher productivity rates.

- (3) The degree to which automation or improved processes and procedures were used in the payment process: Automation and statistical sampling contributed to higher processing rates. Conversely, duplication of effort, problems in timely submission of receiving reports and limited sharing of knowledge on methods to improve efficiency, contribute to low processing rates. [Ref. 15]

B. DELINQUENT PAYMENTS TO FEDERAL CONTRACTORS, HEARINGS BEFORE THE SUBCOMMITTEE ON FEDERAL EXPENDITURES, RESEARCH AND RULES

On May 13, 1981, hearings were opened by the U. S. Senate Subcommittee on Federal Expenditures, Research and Rules, on government procurement. In the opening statements, Senator Danforth commented on the GAO report released in February 1978. He pointed out that interest rates have skyrocketed and businesses have failed, yet the federal government is making matters worse by stalling on the payment of its bills. [Ref. 13]

In addition to the problems discovered by GAO, two other specific problems brought out during these hearings were:

- (1) Irresponsible and unsupportable practices by the federal government which are inconsistent: Businesses are assessed interest charges or penalties, yet federal agencies routinely pay their bills whenever they happen to get around to it, with no penalties or interest charges.
- (2) Discounts: Federal agencies take discounts in many instances after the discount period has expired.

Prior efforts by government to deal with bill paying problems were highlighted in the hearings, for example: In September 1980, the Treasury Department made an attempt to resolve the bill paying issue. In a memorandum to heads of executive departments and agencies, then Secretary G. William Miller directed a reassessment of paying procedures. The reassessment was to ensure compliance with the Treasury Fiscal Requirements Manual Section 8040 which specifies payment due dates. This action was taken to

help alleviate the strain on small and minority businesses. [Ref. 16] Congressional action has been in the form of legislation, Senate bills S.30 and S.1131 and the House versions HR.2036 and HR.4709. Each bill provides incentive for agencies to resolve the delinquent payment problem. S.30 provides for payment of interest by the government on any amount due for more than 30 days to any person under the terms of a contract entered into by the government and such person. The provisions of S.30 are provided in Appendix A. S.1131 requires the government to pay interest on overdue payments and to take early payment discounts only when payments are timely made. The provisions of S.1131 are provided in Appendix B.

Pressure from congressional constituencies prompted such legislative action. Testimony before the Senate Subcommittee by witnesses, government and GAO executives, various business groups such as the American Logistics Association and private entrepreneurs gave supporting opinions that government's overall bill paying practices are not acceptable in today's business environment.

Not everyone is in agreement that legislation is the answer. Some groups feel that the problems faced must be dealt with in a more realistic manner. The Office of Federal Procurement Policy (OFPP) is a prime example. OFPP is opposed to any legislation which would impose statutory requirements on the federal government to pay bills within a certain time frame. In reply to a November 5, 1981 letter from Congressman Brooks requesting the views of OFPP on HR.4709, the following response was given:

"With respect to the matter of interest payments, we do not believe that such payments are warranted. A requirement for interest payments would merely shift to taxpayers the burden of problems that should, to the extent they exist, be dealt with by improved management. The better

approach is to avoid late payments. Furthermore, it is our understanding that contractors are more interested in timely payments than late payments with interest. For this reason we oppose passage of HR.4709." [Ref. 17]

As of April 22, 1982 S.1131 had been passed by the Senate. S.30, HR.2036 and HR.4709 were in subcommittee.

C. VENDOR SURVEY

A sample of fifty vendors was surveyed to get an understanding of current attitudes and problems associated with the timeliness of payments within the Department of the Navy. Fifty unpaid invoices were chosen at random from NRFC Oakland. The survey was biased in that all invoices were either 30 days old or would be prior to payment. Eighteen questions relating to various areas of bill paying were asked during telephone interviews (see Appendix C). Some of the same questions were previously used in a survey conducted by GAO for its 1978 report.

Approximately 80% of the businesses surveyed were small and the largest category of business dealings was in furnishing supplies. Eighty percent of the vendors indicated that bills were paid in more than 30 days. Sixty eight percent felt the Navy paid bills slower than commercial companies. When asked how cash flow and administrative work were affected, 80% indicated at least some effect on cash flow, and 78% felt some administrative problems were caused. To deal with the late payment problems, 76% of the vendors felt making telephone calls to the paying office was the most effective measure to take. Frequently vendors commented that they experienced difficulty determining the correct paying office. Seventy two percent of the companies surveyed offered discounts to Navy activities. 27% said the Navy took discounts rarely and only 12% said the Navy took

them very often. Twenty four percent of companies stated that discounts were rarely taken after the discount period and 8% stated they were taken very often after the discount period. Almost without exception vendors felt that a preprinted invoice furnished by the government along with the purchase document was a good idea as long as they could still provide their own invoices and get paid faster.

One contractor summed up the general feelings of nearly all of those surveyed when he said:

"I like doing business with the Navy and I understand all the red tape, but the bills must be paid in order to keep the cash flow from drying up."

Although this survey is too small to make statistical inference there are indications from it that the problem areas addressed by the GAO report and congressional hearings do exist, and attention needs to be given to bill paying responsibility by the government.

D. SUMMARY

This chapter has provided the reader information concerning the magnitude and types of problems encountered by business concerns. In 1978 and 1980 GAO examined numerous federal payment centers and reported to the Comptroller General on their performance and productivity. Congressional hearings through testimony from various federal agency officials and business groups provided specific insight into these problems. Two different bills, S.30/HR.2036 and S.1131/HR.4709, treated congressional efforts to deal with delinquent payments.

Current attitudes and problems experienced within the Department of the Navy were examined in a survey of fifty vendors. Chapter IV will

examine Navy standards and the ways in which Navy Regional Finance Center Oakland pays its bills in order to obtain some idea about the Navy's actual bill paying performance.

IV. NAVY'S BILL PAYING STANDARDS AND A REVIEW OF ONE ACTIVITY

As discussed in Chapter III, one of the complaints about government is the lack of specific bill paying standards. This chapter will help the reader understand the Navy's policy toward timeliness of payments and discounts. A review of one Navy paying activity will provide some insight into these areas and how the bill paying cycle works.

A. TIMELY SETTLEMENT OF BILLS

Requirements for timely settlement of bills are specifically outlined in NAVSUP P-467:

"Invoices requiring payment will be paid when due. If dealer's bills are received from the same vendor for daily or frequent deliveries to ships or shore activities, they may be settled monthly."

Management can monitor timeliness of bill payments by obtaining accurate information regarding the receipt and subsequent handling of invoices. To this end, activities must have a control system under which each invoice must be clearly marked or stamped to indicate the date and name of the activity at which the invoice is received. Processing of invoices by receiving/certifying activities must be done within 10 days. [Ref. 9] Financial Information Processing Centers/Financial Processing Centers mark and/or record the date of receipt of invoices which are received directly from vendors under the fast pay procedure. Small purchase

actions issued on a DD1155, which provides for fast payment, are covered under a clause on the reverse side. The requirements for Financial Information Processing Centers/Financial Processing Centers to settle payments resulting from contracts not covered specifically by fast pay procedure clauses is outlined as follows:

"Payments shall be made so as to provide for issuance and mailing of checks for receipt by the payee as close as administratively possible to the due date specified on the invoice or procurement document. Estimates of mailing time need not be sophisticated. If neither the invoice nor procurement document specifies a due date, the due date will be considered the 30th day following the receipt of the invoice by the activity designated as the initial recipient. Payment will be scheduled to be made on that date with no allowance for mailing time. If the procurement document is silent as to payment terms and if the terms on an invoice indicate a payment due of less than 30 days from the date of the invoice, that invoice will be treated as if no due date was specified. If goods or services are not certified as received and accepted by the 15th day prior to the due date of an invoice, payment will be made on the due date or as close thereafter as possible. However, such a payment will not be considered as late unless it is made more than 15 days following certification of receipt and acceptance. For example: if the due date is the 10th day of the month and goods or services are not certified as received and accepted until the 5th day of the month, payment should be scheduled on the 10th but can be made as late as the 20th before being considered late." [Ref. 10]

If a conflict should arise between invoice and contractual terms, the terms of the contract shall govern. For example: an invoice cites payment terms of net 30 pursuant to a contract containing a payment clause which cites net 45. Therefore, the payment terms in this instance are net 45.

B. DISCOUNTS

When contracts contain a provision for a prompt payment discount, the discount will be taken if earned. If a discount is not included in the contract but offered on the dealer's invoice, the discount will be taken in strict accordance with the offer. Should discount terms offered on

the contract differ from those on the dealer's invoice the discount must be advantageous to the government provided the rate is equal to or greater than 1 percent in 10 days, net 30 days, the dealer has fulfilled contractual obligations and the discount amount is \$15.00 or more. Discounts of less than \$15.00 may be taken if cost effective, however, discounts of less than 1/2 percent in 10 days net 30 will not be taken regardless of dollar amount.

The discount period is computed beginning on the date the material is delivered, services performed or on the date a proper invoice is received in the proper Navy activity. The contractor is at fault when delays are caused by incorrect invoices or in the execution or return of the contract. To determine the latest date a discount may be taken, add the number of days it is allowed to the beginning. For example: a dealer's invoice which allows a 10 day discount period is received 25 March and the material is received 28 March. The discount period begins 28 March and the latest date it can be taken is 7 April. Payment is considered made when the government check is mailed. In instances where the period expires on a Sunday or holiday the discount is earned if payment is made on the next business day. If that discount period expires on a non-work day such as Saturday, payment must be made on the preceding business day. For discounts offered for payment by tenth proximo:

"The discount is earned if payment is made by the 10th of the month following the month in which the material was delivered, or the month the dealer's invoice was received whichever occurs in the later month."

For example: if both the material and the dealer's invoice are received in March, the discount is earned for payment by 10 April; on the other hand,

if the invoice is received in March and the material in April, the discount is earned for payment by 10 May. Except where provided in the contract, the discount period for invoices received but not payable prior to receipt of price determination amendment begins on the date the amendment is issued.

A discount will be computed on the total amount of the dealer's invoice approved for settlement. This includes taxes and freight but not transportation charges on items priced on an F.O.B. origin basis. Discounts will be computed on any amount approved for settlement which is applied to an indebtedness of a supplier to the government such as liquidation of advance payments, interest on advance payments, liquidated damages, weight penalties, previous erroneous payments and trade-in values. Discounts on contracts providing for progress and delivery payments will be taken on the gross material value of delivery payments and amount applied to liquidation of progress payments. Discounts will be taken on the latter even if the discount period has expired.

When the right to deduct a discount is questioned, the discount will be taken by the disbursing office. If the contractor is not satisfied he may accept payment under protest and file a claim for the amount deducted. In the event refunds are not authorized per NAVSUP P-467 paragraph 046023, claims will be forwarded to the General Accounting Office for adjudication. [Ref. 10]

C. REVIEW OF THE BILL PAYING PROCESS (NRFC OAKLAND APV SYSTEM)

Presently two payment systems are being used by NRFC Oakland: the Integrated Disbursing and Accounting System (IDA) and the Automated Payment Voucher System (APV). At the time of this study, 65% of all bills were paid by APV. The following discussion will apply only to APV procedures.

Purchase documents are forwarded to the certifying activity and contractor via the postal system. After the contract requirements are fulfilled, the contractor then forwards his copy of the purchase order document matched with the original and 3 copies of the invoice to NRFC Oakland for payment if the fast pay method is authorized. Otherwise the original and 3 copies of the invoice are forwarded to the certifying activity when the contracted item(s) is delivered. Upon receipt, inspection and acceptance of the item(s), the purchase order document is matched with the certified invoices and forwarded for payment.

The finance center records the date and time all documents are received. The matched documents are distributed to an audit section where invoices are checked for the date, invoice number, price, vendor heading and purchase order number. When the audit function is complete a control section will then code batch and verify certain manufacturer's data and enter designated information into the computer system. The computer system serves as a data base for check printing information. Within 24 hours a detailed listing is provided to an examination section. Verification that the information input from the matched invoices and purchase documents corresponds to the computer listing is performed in the examination section. When examination is completed checks are cleared to be printed and mailed to the contractor. See Figures 4.1 and 4.2 for flow chart descriptions.

Sending the procurement activity purchase document to the certifying activity instead of the paying office is a fairly new procedure being used by the Naval Supply Center Oakland. The impact which this new change has upon NRFC Oakland's bill paying performance cannot be determined at the present time.

Bill Paying Procedure
Flow Process (NRFC Oakland APV System)

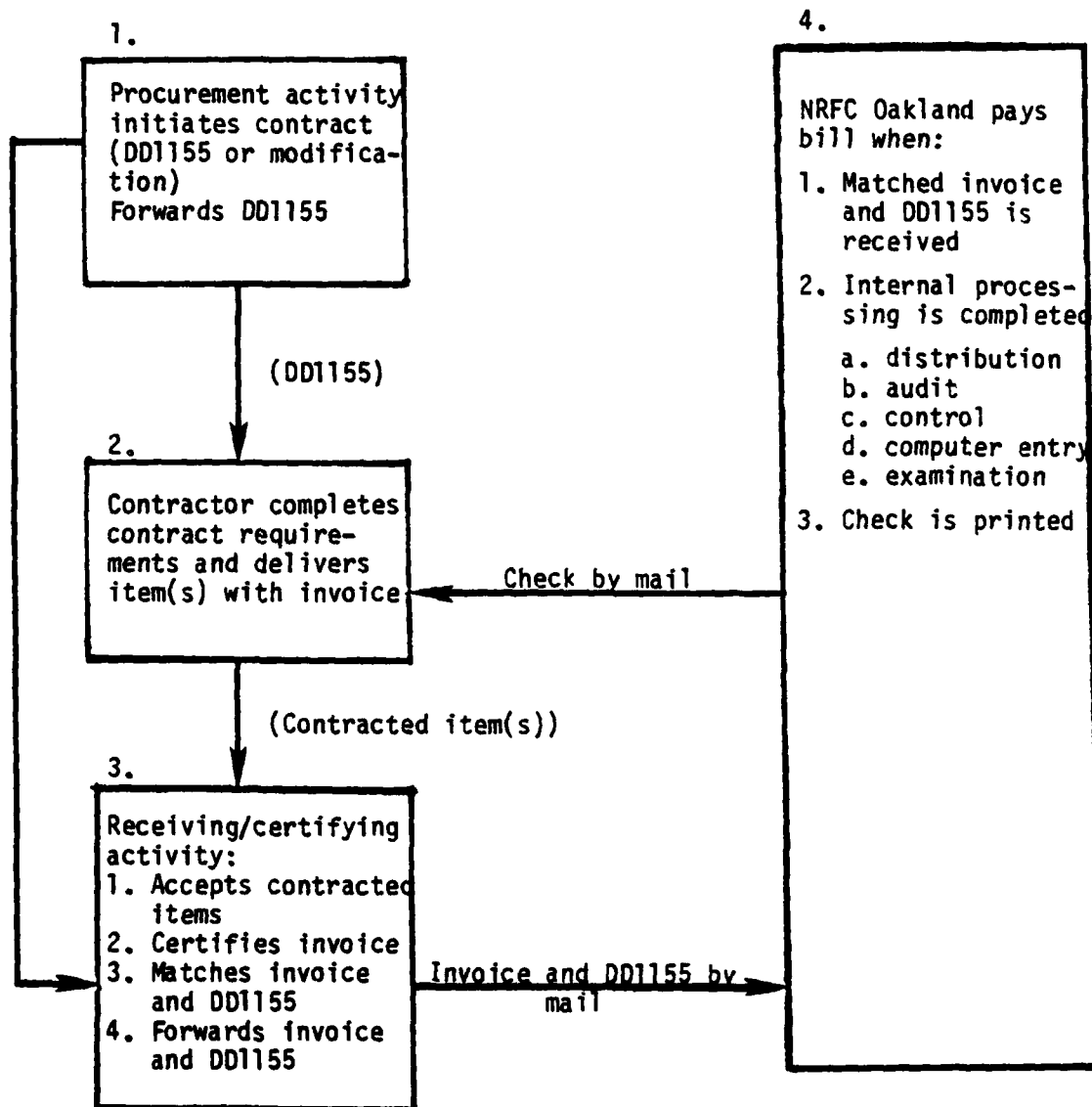


Figure 4.1
Complete distribution of DD1155 not shown.

Bill Paying Procedure
Flow Process (NRFC Oakland APV System)
Fast Pay

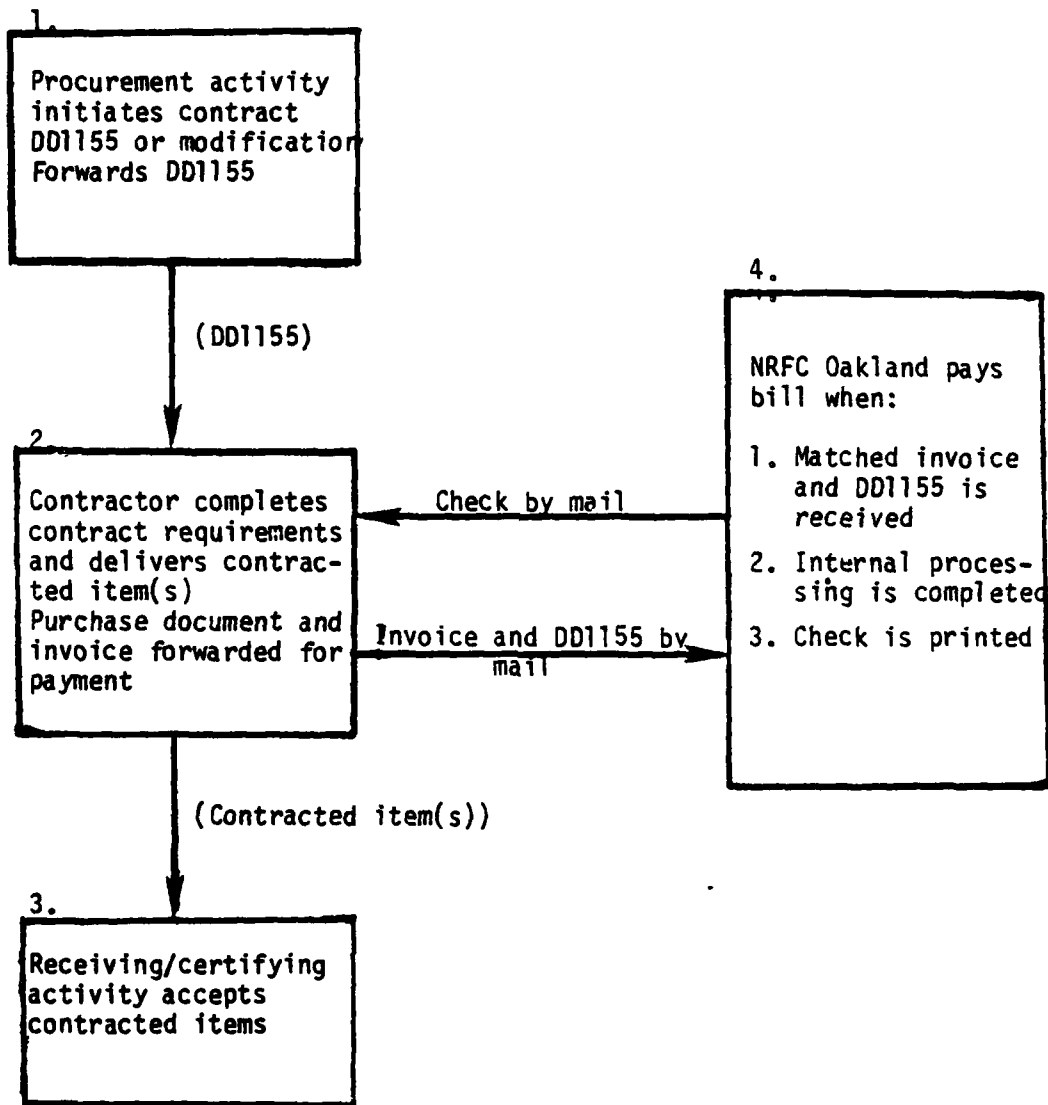


Figure 4.2
Complete distribution of DD1155 not shown.

D. TIMELINESS OF BILL PAYING PERFORMANCE AT NRFC OAKLAND

A review of operations was conducted at NRFC Oakland, a Financial Information Processing Center. NRFC pays on the average about 25,000 bills a month. Many paying activities have yet to obtain the electronic processing capabilities provided by IDA. Therefore, only data pertaining to bills paid under the APV system was collected. [Ref. 13]

A sample of 74 invoices was chosen at random from approximately 10,509 paid in November, 1981. The sample showed that on the average a bill was paid 27.5 days after the receipt of certified invoices and 62 days after the date of the invoice. The number of invoices paid in 30 days or less from the receipt date of certified invoices and date of the invoice was 73% and 32% respectively. As part of an internal monitoring system, NRFC Oakland also provided similar data collected during the week of December 4, 1981. NRFC's sample data revealed that on the average a bill was paid about 13 days after the date of the invoice. The number of invoices paid in 30 days or less after the receipt date of certified invoices and date of the invoice was 99% and 34% respectively. Sample data is summarized in Tables 4.1 and 4.2. Other findings from the sampling data are as follows:

- (1) From the date of receipt of certified invoices, some bills were paid in as little as 5 days and others as many as 25 days.
- (2) From the time invoices were dated some bills were paid in as little as 12 days and others as many as 355 days.
- (3) The number of days to payment from the date of the invoice in the data provided by NRFC Oakland and that collected by the author showed that over 40% of bills were paid between 31 and 60 days.
- (4) The total dollar value of the sample was \$89,172.80.

Table 4.1

Invoices Paid by NRFC Oakland
 Month of November 1981
 Automated Pay Voucher System

Sample Size 74

Source: Random selection from approximately 10,509 invoices paid in
 November 1981

days to payment after
 receipt of certified

<u>invoice</u>	<u>Quantity</u>	<u>Percent</u>
0 - 30	54	72.98
31 - 60	14	18.92
61 - 90	3	4.05
over 90	3	4.05
TOTAL	74	100.00

On the average 27.52 days were required to pay a bill after the date NRFC
 received certified invoices.

days to payment after
 date of the invoice

	<u>Quantity</u>	<u>Percent</u>
0 - 34	24	32.43
31 - 60	31	41.89
61 - 90	8	10.81
over 90	11	14.86
TOTAL	74	100.00

On the average 62.12 days were required to pay a bill after the invoice
 date.

Source: Data compiled from NRFC by the researcher.

Table 4.2

Invoices Paid by NRFC Oakland
 Week of December 4, 1981
 Automated Pay Voucher System

Sample size 100

Source: Approximately 1% of current backlog

days to payment after
 receipt of certified
 invoices

	<u>Quantity</u>	<u>Percent</u>
0 - 30	99	99.00
31 - 60	1	1.00
61 - 90	0	0.00
over 90	<u>0</u>	<u>0.00</u>
TOTAL	100	100.00

On the average 13 days were required to pay a bill after the date NRFC received certified invoices.

days to payment after
 date of invoice

	<u>Quantity</u>	<u>Percent</u>
0 - 30	34	34.00
31 - 60	48	48.00
61 - 90	5	5.00
over 90	<u>13</u>	<u>13.00</u>
TOTAL	100	100.00

On the average 48 days were required to pay a bill after the invoice date.

Source: Data provided by NRFC Oakland.

- (5) 25% of the invoices were from vendors offering discounts. The dollar value of these invoices was \$17,720.13. The dollar value of the discounts was \$336.53.
- (6) 11% of the invoices offering discounts were paid in more than 30 days. The dollar value was \$46.98.
- (7) The average dollar value of a discount in the sample was \$17.71.
- (8) Two of the total number of invoices chosen were paid using fast pay procedures.

E. SUMMARY OF SAMPLE FINDINGS

The sample findings indicate that NRFC Oakland pays the majority of its bills in 30 days or less once certified invoices are received. The range was from 5 to 325 days but many were paid in 12 to 15 days. From the date of the invoice until payment, the majority of bills are paid in 60 days or less with at least 40% being paid in the 31 to 60 day time frame. The range was from 12 to 355 days. Data indicate that a big delay is caused by the certification process. About 25% of the invoices offered discounts. Of this quantity 11% were not paid in 30 days causing a loss of 13.96% of the total discount amount. The primary indication is that some discounts are lost due to untimely bill paying. Fast pay procedures are not being used extensively.

F. PROBLEM AREAS

Due to the complexity of the entire bill paying process, numerous bill paying problem areas were identified both internal and external to the finance center. Each problem area had some impact on timeliness of payments. External problems include the following:

- (1) Delays in forwarding the purchase documents and invoices to the various activities caused by the postal system. Navy activities and vendors share the blame for these delays when documents and invoices are not mailed in sufficient time to compensate for the postal system.
- (2) Delays in transferring the purchase documents and invoices to the payment center caused by internal processing and routing systems at certifying activities. The receiving/certifying activity is at fault when these types of delays occur.
- (3) Clerical mistakes such as incorrect purchase order number on the invoice or leaving off the invoice number. The vendor is at fault when delays of this nature occur.

Internal problems found include the following:

- (1) Delays as a result of the examinations section having to find and correct undetected errors not found during the audit function.
- (2) Delays caused by returning incorrect invoices to the forwarding activity. The receiving/certifying activity is at fault in most cases where these delays occur.
- (3) Reduced productivity as a result of time spent handling inquiries into bill paying problems.
- (4) Reduced productivity as a result of returning invoices to the forwarding activity because NRFC Oakland was not the paying office designated in the contract. Both receiving/certifying activities and the vendor (fast pay) share the blame for creating this delay.

Quantifying the amount of time lost in the payment cycle because of internal and external problems associated with it as seen from the point of view just discussed requires more extensive review and is beyond the scope of this study.

G. SUMMARY

This chapter has provided the reader with some knowledge about the Navy's current policy toward bill paying. A look was taken at one Navy paying office and some insight into two areas was gained: how NRFC Oakland actually operates within the entire bill paying cycle and the

timeliness of its bill paying. The older more refined Automated Pay Voucher system of payment was reviewed. Sample data collected by the author and sample information provided from the center's internal monitoring was analyzed to obtain information about timeliness of payments and discounts. The review indicated that for various reasons, internal and external problems exist which impact on the center's overall performance.

V. TWO PAYMENT PROCESS MODELS FOR FUTURE CONSIDERATION

With the exception of imprest fund and fast pay, bill paying procedures require purchase documents and invoices to pass through several activities before payment is made. The IDA system eventually will reduce these requirements by allowing certifying and purchasing offices to electronically transmit purchase document and invoice information to the paying office. Research data in Chapter IV indicated that the major external factors which affect the timeliness of NRFC Oakland's bill paying performance are delays in the certification process. Numerous problems internal to the paying office were also found to affect bill paying performance.

This chapter will examine two models for future consideration which may reduce the problems discussed in Chapter IV.

A. DECENTRALIZED BILL PAYING

The first model to be considered shortens the bill paying cycle by reducing the number of activities involved. Detailed payment procedure steps are as listed below:

- (1) The signed duplicate original and/or copies of the basic contract instrument (DD1155) when received by the certifying activity establishes a basis for payment. Authorized changes is the vehicle by which modifications are made to the basic contract.
- (2) Once goods or services have been provided by the vendor, an itemized invoice is submitted in an original and three copies to the activity designated in the contract. Payment is made only on the original invoice. Invoices marked "copy" or "duplicate" are unacceptable.
- (3) When the contract provides for acceptance by the consignee, invoices will be submitted to the consignee, who certifies that material or services were inspected and accepted. If deliveries are made to Navy ships, the invoice should accompany the material or services. In either case the invoices are then matched with the purchase document.
- (4) Disbursing functions are carried out by the certifying activity when the contractor's invoice matched with the purchase document is processed to determine whether the government has a valid and legal obligation. [Ref. 12]

See Figure 5.1 for a flow chart description.

Under this system bill paying functions are decentralized. Authority to make disbursements is limited to \$25,000 or the maximum small purchase authority level. For example: a typical shore activity can purchase and pay bills in the amount of \$25,000 or less since it is also a certifying activity.

This system shortens the period in which the invoice is submitted and the bill is paid. Delays caused by forwarding documents through the postal system are reduced. Delays created by returning invoices to the vendor because they were sent to the wrong paying office are reduced. The audit function normally performed by the central paying office is incorporated into the certifying process. Not only is the overall work load of paying offices reduced but such a system still allows financial accounting and disbursing information to be transmitted via the IDA system.

Decentralized Bill Paying Procedure

Flow Process

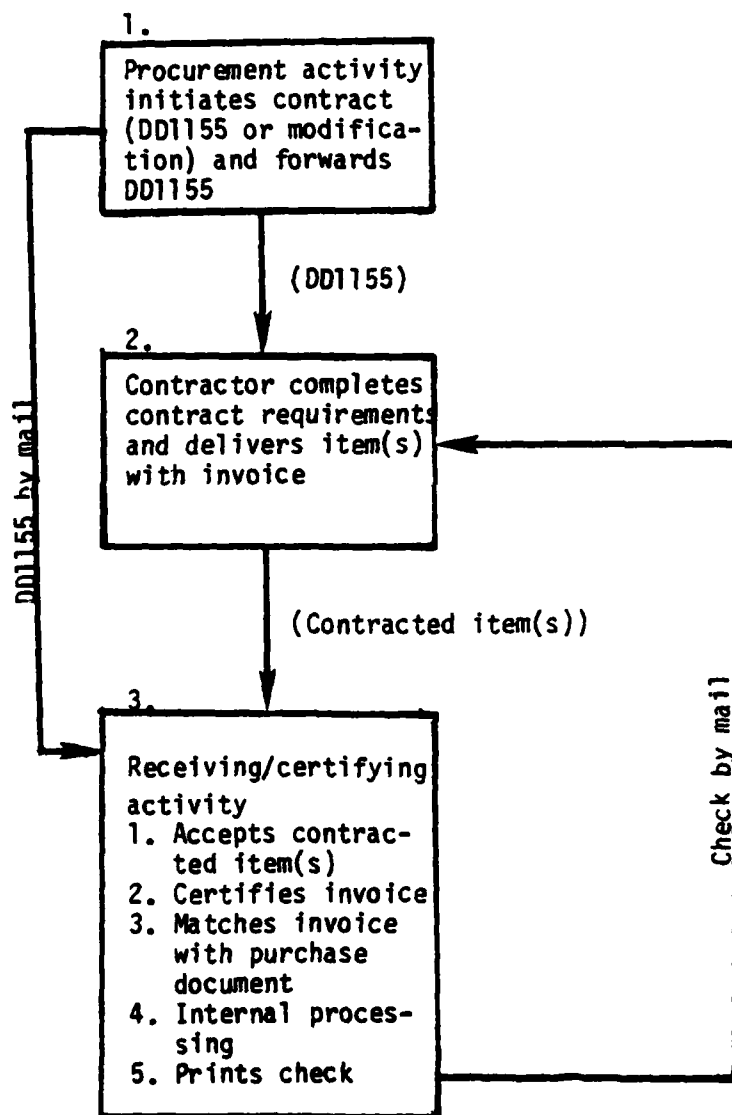


Figure 5.1
Complete distribution of DD1155 not shown.

B. EXPANDED USE OF IMPREST FUND

This model expands the use of the imprest fund method to payment of orders for \$5,000 or less by check (or cash) on delivery (C.O.D.). Detailed payment procedures are as listed below:

- (1) Imprest fund orders are placed by the purchasing activity. The signed duplicate original and/or copies of the basic contract document (DD1155) are forwarded to the imprest fund cashier who maintains a file of purchase documents covering imprest fund purchases.
- (2) Material or services are delivered or assigned to a designated receiver/checker who makes the appropriate examinations to ascertain that the quantity and quality described on the purchase request document and dealer's sales document are present and in good condition. The checker then certifies the dealer's invoice and forwards it along with a copy of the purchase document to the imprest fund cashier for payment.
- (3) The imprest fund cashier performs disbursing functions upon receipt, matching and processing of the invoice/sales document and copy of the purchase request documents. [Ref. 10]

See Figure 5.2 for a flow chart description.

Under this system all small purchase bill paying functions are not decentralized as in the first model. However, activities with imprest fund authority can shorten the bill paying cycle for many procurement actions by paying C.O.D. Expanding imprest fund procedures in this manner reduces delays caused by forwarding documents through the postal system, eliminates having to return invoices to the vendor because they were sent to the wrong paying office, incorporates the audit function into the certifying process and reduces the overall quantity of invoices being paid at central paying offices. Such a system may be easily adopted by itself or as a part of the decentralized system.

Bill Paying Procedure

Flow Process (Expanded Imprest Fund C.O.D.)

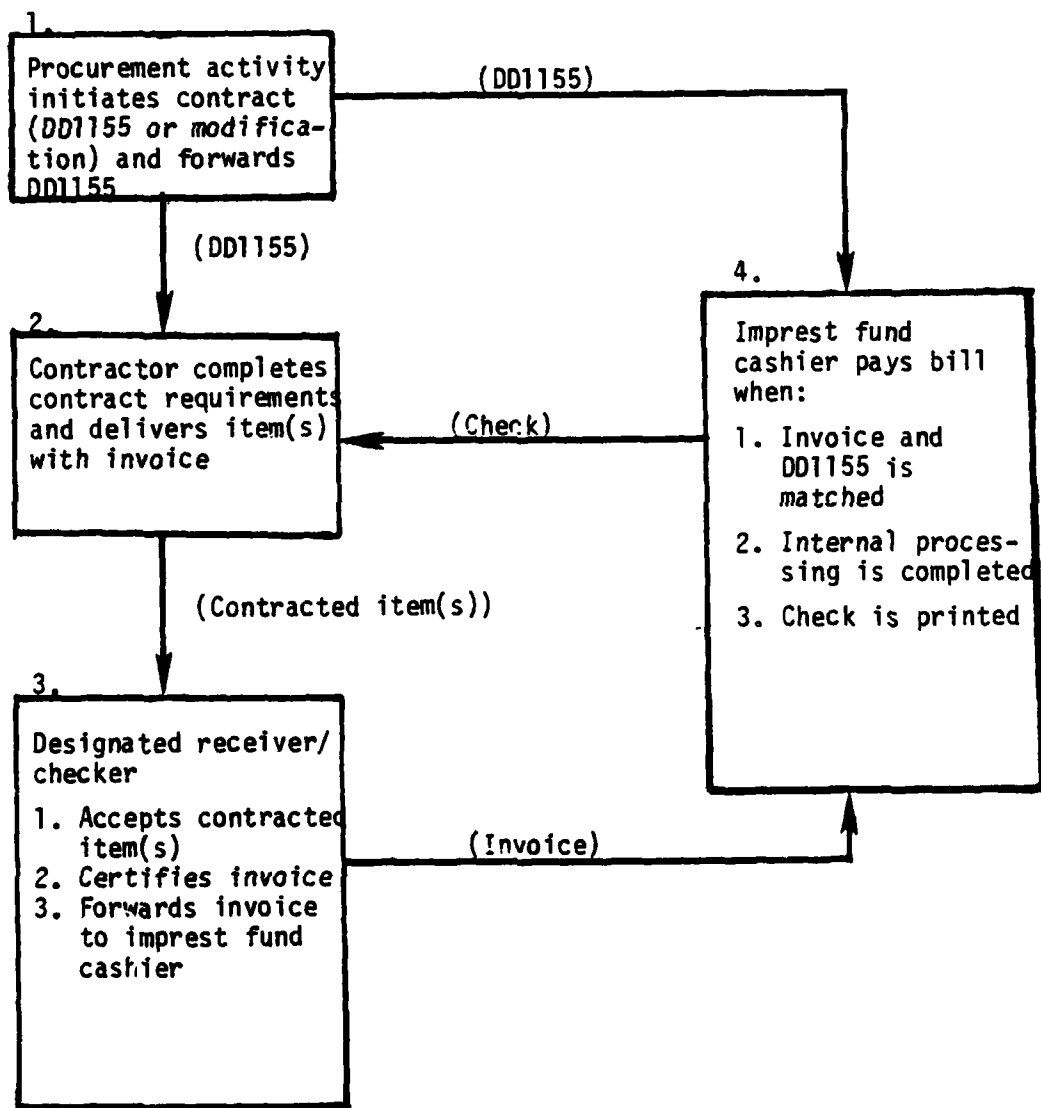


Figure 5.2

Complete distribution of DD1155 not shown.

C. SUMMARY

This chapter presented two alternative bill paying processing methods for future consideration by the Department of the Navy. The first model allows certifying activities to also perform disbursing functions which in effect decentralize bill paying operations. The entire cycle would be shortened and many delays reduced. The second model expands the present imprest fund method to allow activities with imprest fund authority to pay for purchases up to \$5,000 by check (or cash) on delivery. The cycle is shortened, delays are eliminated and the bill paying responsibility of central paying offices is reduced.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

1. Settling the billions of dollars in payments with thousands of different contractors for goods and services has become an important part of the federal procurement function. This importance can be attributed mainly to the climate of the business environment precipitated by an interest in controlled cash flow during uncertain economic conditions.

Federal small purchase bill paying is a long process which requires that certain sequential steps be followed by purchasing activities, contractors and paying offices. Due to the very nature of the process, delays in making timely payments may be caused by any number of factors. The Department of the Navy has established various policies and procedures for carrying out the bill paying process and settling bills in a timely manner.

To protect against waste, fraud and abuse, recent congressional concern over untimely bill paying has resulted in legislation which would impose a penalty for late payments by the government. One way the Navy is attempting to deal with the problem is by making procedural changes stemming from solicited suggestions submitted by field procurement activities.

2. Navy bill paying functions are handled as part of the IDA concept. Theoretically when the system is fully implemented, electronic transmission of specified data elements between receiving/certifying and bill paying activities will shorten document flow and improve the timeliness of small purchase invoice payments.

3. In spite of the difficulties contractors are experiencing, in general they are optimistic about doing business with the Navy. A survey of current attitudes of vendors doing business with the Department of the Navy indicates that vendors expect to get paid within 30 days from the date the invoice is submitted for payment to the government (the commercial standard), but this was not happening in the majority of instances. Additional administrative work and cash flow problems are being experienced because of lengthened payment periods. Most contractors understood the complexity of the federal bureaucracy but stressed the fact that the high cost of borrowing money to resolve interim cash flow problems is their biggest concern.

4. The biggest delay in the Navy bill paying cycle occurs in the certification process. Based on the data collected for this study, bills paid by the Navy Regional Finance Center Oakland using normal Navy bill

paying procedures can take anywhere from 5 to over 300 days after receipt of the proper documents. On the average it takes about 27 days but many are paid in 10 to 15 days. Also on the average the total length of time required to pay bills more than doubled due to the certification process. Fast payment procedures are not being used extensively.

5. The timeliness of paying small purchase invoices may be improved by considering two models for use in the future. The first model permits certification and disbursing functions to be carried out at the same activity. This decentralizes bill paying. The second model expands the use of imprest fund procedures to allow payment by check (or cash) on delivery for purchases up to \$5,000. This model could be used in conjunction with the first model or separately.

B. RECOMMENDATIONS

1. Require acceptance at source whenever possible for all small purchase contracts administered by DCAS. This method expedites payment to contractors. If the government assumes responsibility for goods and services at the vendor's plant then the vendor can immediately forward invoices to the DCASR office for payment.

2. Greater use of fast pay procedures. Fast pay procedures allow the contractor an avenue to receiving payment for goods and services in an expeditious manner while giving the government the right to redress in the case of discrepancies.

3. Raise the present imprest fund limit to \$500 and \$1000 in emergencies. Imprest fund limits should be revised periodically to maintain pace with the actual purchasing power of the dollar.

4. Purchasing activities forward a preprinted invoice with the purchase document to contractors. Providing a government invoice which specifies the five major data elements required for payment approval will help eliminate delays caused by vendors failing to furnish this information on their invoices. To prevent contractors from having to change their internal accounting systems, they can still submit company invoices as well.

5. Conduct another study of this nature to determine the impact of the purchasing activity forwarding the DD1155 to the certifying activity vice the paying office. The matching of invoices with the purchase document by the receiving/certifying activity should improve the processing time of invoices. Delays caused by one of the two documents being missing will be eliminated and internal processing will be speeded up.

6. Decentralize bill paying to the maximum extent possible. One of the main causes of untimely payments is the delay in certifying invoices and subsequently forwarding them for payment to a central paying office. Transferring the responsibility for disbursing functions to receiving/certifying activities will shorten the bill paying cycle, help eliminate the other problems areas found in this study and assist in readily identifying exactly who caused payments not to be made in 30 days.

7. Expand the use of imprest fund procedures to allow payment by check (or cash) on delivery for purchases up to \$5,000. In addition to providing an expeditious means of settling payments, the workload of centralized paying offices will be reduced.

8. Conduct a feasibility study on Recommendations 6 and 7 to examine what impact adopting such models will have on the IDA system concept currently ongoing in the Navy.

9. Conduct a cost/benefit analysis to determine if adopting Recommendations 6 and 7 are cost effective should they have a favorable impact on the IDA system concept.

Appendix A
Senate Bill S.30

97TH CONGRESS
1ST SESSION

S. 30

To provide for the payment of interest by the Federal Government on any amount due for more than thirty days to any person under the terms of a contract entered into by the Federal Government and such person.

IN THE SENATE OF THE UNITED STATES

JANUARY 5, 1981

Mr. SASSEN introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

A BILL

To provide for the payment of interest by the Federal Government on any amount due for more than thirty days to any person under the terms of a contract entered into by the Federal Government and such person.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) each agency shall include in every contract entered
4 into by that agency with any person for goods or services a
5 provision specifying that the United States will pay interest
6 to such person on any amount due such person for more than
7 thirty days. No amount shall be considered due under any

1 such contract until the agency has received a proper invoice
2 for the goods or services furnished to the United States and
3 such substantiating documentation as the agency may require
4 by regulation.

5 (b) Interest shall be payable under subsection (a) at a
6 rate prescribed by the Secretary of the Treasury every six
7 months, taking into consideration current private commercial
8 rates of interest for new loans maturing in approximately five
9 years.

10 (c) For purposes of this Act, the term "agency" has the
11 same meaning as in section 551(1) of title 5, United States
12 Code.

Appendix B
Senate Bill S.1131

97TH CONGRESS
1ST Session

S. 1131

To require the Federal Government to pay interest on overdue payments and to take early payment discounts only when payment is timely made, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 6 (legislative day, APRIL 27), 1981

Mr. DANFORTH, (for himself, Mr. WEICKER, Mr. ROTH, Mr. SASSER, Mr. BAUCUS, Mr. CHAFETZ, Mr. CHILES, Mr. COCHRAN, Mr. COHEN, Mr. DOLB, Mr. DUENENBERGER, Mr. GARN, Mr. GRASSLEY, Mr. HATCH, Mr. JACKSON, Mr. LEVIN, Mr. MISTENBAUM, Mr. MOYNIHAN, Mr. NUNN, Mr. PERCY, Mr. RUDMAN, Mr. SPECTER, and Mr. STEVENS) introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

A BILL

To require the Federal Government to pay interest on overdue payments and to take early payment discounts only when payment is timely made, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 Section 1. This Act may be cited as the "Delinquent
- 4 Payments Act of 1981".

1 INTEREST ON DELINQUENT PAYMENTS

2 SEC. 2. (a) In accordance with regulations prescribed by
3 the Director of the Office of Management and Budget, each
4 Federal agency which acquires property or services from a
5 business concern, but which does not make payment for
6 each such complete item of property of service delivered—

7 (1) within thirty days after the date on which pay-
8 ment is due under the terms of the contract for the
9 provision of such property or service or otherwise; or

10 (2) within thirty days after receipt of a proper in-
11 voice for the amount of the payment due, if a specific
12 date on which payment is due is not established by
13 contract or otherwise,

14 shall pay to such business concern interest, in accordance
15 with this section, on the amount of the payment which is due.

16 (b)(1) Interest on amounts due to a business concern
17 under this Act shall be paid to the business concern for the
18 period beginning on the thirty-first day after payment is due
19 under the contract or otherwise or on the thirty-first day
20 after the Federal agency receives a proper invoice for the
21 amount of the payment due, as the case may be, and ending
22 on the date on which payment of the amount due is made.
23 The interest provided for in this section shall be paid at a
24 rate which the Secretary of the Treasury shall specify as
25 applicable to the period beginning on July 1, 1981, and

1 ending on December 31, 1981, and to each six-month period
2 thereafter. Such rate shall be determined by the Secretary of
3 the Treasury, taking into consideration current private com-
4 mercial rates of interest for new loans maturing in approxi-
5 mately five years. The Secretary of the Treasury shall pub-
6 lish each such rate in the Federal Register.

7 (2) Any amount of interest which remains unpaid at the
8 end of any thirty-day period shall be added to the principal
9 amount of the debt and thereafter interest shall accrue on
10 such added amount.

11 (c) A Federal agency shall pay any interest charges
12 required by this section out of funds appropriated for the
13 administration of agency programs.

14 (d) This Act does not authorize the appropriation of
15 funds for the payment of interest required by this Act.

16 LIMITATION ON DISCOUNT PAYMENTS

17 SEC. 3. If a business concern offers a Federal agency a
18 discount from the amount due for the acquisition of property
19 or services, for the payment by such agency within a speci-
20 fied period of time, the agency may pay the business concern
21 the discounted amount only if payment is actually made
22 within the time specified by the business concern.

23 CONGRESSIONAL OVERSIGHT

24 SEC. 4. (a) Each Federal agency shall file with the re-
25 spective chairmen of the Senate Committee on Governmental

1 Affairs and the House Committee on Government Operations
2 a detailed report on any interest payments made during the
3 preceding fiscal year.

4 (b) Such report to include the number of interest pay-
5 ments, the amounts thereof, the frequency thereof and the
6 reasons therefor shall be delivered to the respective commit-
7 tee chairmen within sixty days of the conclusion of each fiscal
8 year.

9 DEFINITIONS

10 SEC. 5. For the purposes of this Act—

11 (a) the term "Federal agency" has the same
12 meaning as the term "agency" in section 551(1) of
13 title 5, United States Code;

14 (b) the term "business concern" means any person
15 engaged in a trade or business;

16 (c) an invoice shall be considered a "proper in-
17 voice" when it contains or is accompanied by such sub-
18 stantiating documentation as the Federal agency con-
19 cerned may require by regulation; and

20 (d) an invoice shall be deemed to have been "re-
21 ceived" by an agency on the earlier of (A) the date
22 on which such Federal agency actually receives the
23 invoice, or (B) the fifth day after the date the invoice is
24 mailed.

1 **EFFECTIVE DATE**

2 **SEC. 6. (a)** This Act applies to agreements for the ac-
3 quisition of property or services made on or after the nine-
4 tieth day after the date of enactment of this Act.

5 **(b)** The provisions of this Act requiring the promulgation
6 of regulations shall be effective upon enactment, and such
7 regulations shall be promulgated not later than ninety days
8 after the date of enactment of this Act.

Appendix C
RESEARCH QUESTIONS

The following are questions used by the researcher in conducting telephone interviews with fifty contractors. These questions were the primary source of discussions with interviewees.

1. Do you operate a large or small business?
2. What category of business dealings do you have with the Navy?
3. Does your company offer discounts to the Navy?
4. If your company does not offer discounts to the Navy, give the reasons why.
5. If discounts are offered, how often does the Navy take them?
6. How often does the Navy take discounts after the discount period has expired?
7. Estimate the number of invoices your company submitted to Navy activities for payment last year.
8. What date does your company use as the starting date for computing when Navy payments are due?
9. What is your company's payment due date? (The number of days allowed for payment after the starting date).

10. When does your company submit invoices to Navy paying activities for payment?
11. What general time frame are payments received in based on elapsed time from invoice/billing date?
12. Does your company consider the Navy's bill paying performance satisfactory?
13. Does your company believe that commercial companies pay faster than the Navy?
14. What impact does late payment have on your company's cash flow?
15. What impact does late payment have on your company's administrative work?
16. What is the most effective action used by your company to collect late payments?
16. Does your company quote the Navy higher prices as a result of late payments?
17. Would your company object to the Navy furnishing a preprinted invoice with each purchase order?
18. Do you feel the DD1155 purchase order is a good form?

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